

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Lee Township	County Calhoun
Fiscal Year End 3/31/07	Opinion Date September 25, 2007	Date Audit Report Submitted to State September 27, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

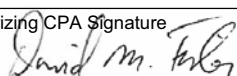
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517.787.6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49204
Authorizing CPA Signature 		Printed Name David M. Fisher, CPA		License Number 10337

LEE TOWNSHIP

Calhoun County, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
March 31, 2007**



REHMANN ROBSON

Certified Public Accountants

LEE TOWNSHIP

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

 an independent member of
BAKER TILLY
INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

September 25, 2007

Board of Trustees
Township of Lee
Calhoun County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Lee Township, Michigan**, as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lee Township, Michigan, as of March 31, 2007, and the respective changes in financial position thereof and the budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Township has elected not to present Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

LEE TOWNSHIP
Statement of Net Assets and General Fund Balance Sheet
March 31, 2007

	<u>Governmental Activities</u>
Assets	
Cash	\$ 161,996
Investments	100,428
Accounts receivable	3,211
Taxes receivable	2,389
Due from other governments	14,039
Capital assets not being depreciated	20,564
Capital assets being depreciated, net	<u>287,148</u>
 Total assets	 <u><u>589,775</u></u>
 Liabilities	
Accrued liabilities	648
Long term debt	
Due within one year	4,865
Due after one year	<u>256,666</u>
 Total liabilities	 <u><u>262,179</u></u>
 Net Assets	
Investment in capital assets, net of related debt	46,181
Unrestricted	<u>281,415</u>
 Total net assets	 <u><u>\$ 327,596</u></u>

The accompanying notes are an integral part of these financial statements.

LEE TOWNSHIP
Statement of Activities
For the Year Ended March 31, 2007

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
Legislative	\$ 6,505	\$ -	\$ -	\$ -	\$ (6,505)
General government	79,803	7,769	3,306	-	(68,728)
Public safety	29,089	-	495	-	(28,594)
Public works	4,605	-	-	-	(4,605)
Planning and zoning	7,291	-	-	-	(7,291)
Interest on long-term debt	13,629	-	-	-	(13,629)
Total	<u>\$ 140,922</u>	<u>\$ 7,769</u>	<u>\$ 3,801</u>	<u>\$ -</u>	<u>(129,352)</u>

General revenues:

Property taxes	30,249
Unrestricted state aid	85,511
Unrestricted investment earnings	<u>8,648</u>

Total general revenues 124,408

Change in net assets (4,944)

Net assets, beginning of year 332,540

Net assets, end of year \$ 327,596

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

LEE TOWNSHIP
Balance Sheet
Governmental Funds
For the Year Ended March 31, 2007

	Major Funds		Nonmajor Fund	
	General Fund	Debt Service	Capital Projects	Totals
<u>ASSETS</u>				
Assets				
Cash	161,996	\$ -	\$ -	\$ 161,996
Investments	100,428	-	-	100,428
Accounts receivable	3,211	-	-	3,211
Taxes receivable	2,389	-	-	2,389
Due from other governments	14,039	-	-	14,039
<u>TOTAL ASSETS</u>	<u>\$ 282,063</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 282,063</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accrued liabilities	\$ 648	\$ -	\$ -	\$ 648
Fund balances				
Unrestricted	281,415	-	-	281,415
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 282,063</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 282,063</u>

The accompanying notes are an integral part of these financial statements.

LEE TOWNSHIP
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
March 31, 2007

Fund balances - total governmental funds	\$ 281,415
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	307,712
Certain liabilities, such as loans payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - loan payable	<u>(261,531)</u>
Net assets of governmental activities	<u><u>\$ 327,596</u></u>

The accompanying notes are an integral part of these financial statements.

LEE TOWNSHIP
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended March 31, 2007

	Major Funds		Nonmajor Fund	
	General Fund	Debt Service	Capital Projects	Total
Revenues				
Taxes	\$ 30,249	\$ -	\$ -	\$ 30,249
Licenses and permits	4,394	-	-	4,394
Intergovernmental revenue	85,511	-	-	85,511
Interest revenue	8,648	-	-	8,648
Miscellaneous revenue	7,176	-	-	7,176
Total revenues	135,978	-	-	135,978
Expenditures/Expenses				
Current:				
Legislative	6,505	-	-	6,505
General government	71,978	-	-	71,978
Public safety	29,089	-	-	29,089
Public works	4,605	-	-	4,605
Planning	7,291	-	-	7,291
Debt Service:				
Principal	-	26,461	-	26,461
Interest	-	13,629	-	13,629
Capital outlay	-	-	567	567
Total expenditures	119,468	40,090	567	160,125
Revenue over (under) expenditures	16,510	(40,090)	(567)	(24,147)
Other financing sources (uses)				
Transfers in	-	40,090	-	40,090
Transfers out	(40,000)	-	(90)	(40,090)
Total other financing sources (uses)	(40,000)	40,090	(90)	-
Net change in fund balances	(23,490)	-	(657)	(24,147)
Fund balances, beginning of year	304,905	-	657	305,562
Fund Balance, end of year	\$ 281,415	\$ -	\$ -	\$ 281,415

The accompanying notes are an integral part of these financial statements.

LEE TOWNSHIP
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended March 31, 2007

Net change in fund balances - total governmental funds	\$ (24,147)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	7,462
Deduct - depreciation expense	(10,880)
Deduct - loss on disposal of capital assets	(3,840)

Loan proceeds provide current financial resources to governmental funds in the period issued, but obtaining a loan increases long-term liabilities in the statement of net assets. Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net

Add - principal payments on long-term liabilities	<u>26,461</u>
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Change in net assets of governmental activities	<u><u>\$ (4,944)</u></u>
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The accompanying notes are an integral part of these financial statements.

LEE TOWNSHIP
Statement of Revenue, Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund
March 31, 2007

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenues				
Taxes	\$ 28,600	\$ 30,600	\$ 30,249	\$ (351)
Licenses and permits	6,000	6,000	4,394	(1,606)
Intergovernmental revenue	87,000	87,000	85,511	(1,489)
Interest revenue	13,601	13,902	8,648	(5,254)
Miscellaneous revenue	6,350	7,595	7,176	(419)
Total revenues	141,551	145,097	135,978	(9,119)
Expenditures				
Legislative	7,450	8,250	6,505	(1,745)
General government				
Supervisor	7,800	7,800	7,620	(180)
Elections	3,665	3,970	3,366	(604)
Assessor	9,715	9,820	9,819	(1)
Prof svcs	2,100	2,626	2,375	(251)
Clerk	8,925	9,025	8,722	(303)
Board of review	1,650	1,750	1,600	(150)
Treasurer	8,950	8,950	8,208	(742)
Bldg & Grounds	13,000	11,390	8,771	(2,619)
Cemetery	1,275	1,275	1,275	-
Ordinance enf	3,700	3,700	3,654	(46)
Bldg Inspector	2,000	2,000	1,211	(789)
Electrical Insp	2,200	2,388	2,300	(88)
Plumbing Insp	2,000	2,000	955	(1,045)
Library	2,200	2,616	2,616	-
Social Sec	1,600	1,835	1,413	(422)
Insurance	10,000	10,000	8,073	(1,927)
Contingency	3,000	225	-	(225)
Tax refunds	100	100	-	(100)
Total general government	83,880	81,470	71,978	(9,492)
Public safety				
Fire contract	29,700	29,700	29,089	(611)
Public works				
Drains	3,000	4,610	4,605	(5)
Planning & zoning	11,675	11,675	7,291	(4,384)
Total expenditures	135,705	135,705	119,468	(16,237)
Revenues over (under) expenditures	5,846	9,392	16,510	(7,118)
Other financing sources				
Transfers out	-	-	(40,000)	40,000
Net change in fund balances	5,846	9,392	(23,490)	32,882
Fund balance, beginning of year	304,905	304,905	304,905	-
Fund balance, end of year	\$ 310,751	\$ 314,297	\$ 281,415	\$ 32,882

The accompanying notes are an integral part of these financial statements.

LEE TOWNSHIP
Statement of Fiduciary Net Assets
Current Tax Collections Agency Fund
March 31, 2007

ASSETS

Assets

Cash and short-term investments	<u>\$ 1,206</u>
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LIABILITIES

Liabilities

Due to others	<u>\$ 1,206</u>
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The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

LEE TOWNSHIP, MICHIGAN

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Lee Township (the “government” or “Township”) is governed by an elected five-member board of trustees. In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

The Township is a member of the Marshall Area Firefighters Ambulance Authority. The Authority receives a millage to provide emergency medical services to the Township along with other townships and cities that are part of the Authority. The Township does not have an equity interest in the Authority.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Township has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LEE TOWNSHIP, MICHIGAN

Notes To Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

Additionally, the government reports the following fund type:

The *capital projects fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities and improvements.

The *agency fund* accounts for assets held for other governments in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

LEE TOWNSHIP, MICHIGAN

Notes To Financial Statements

D. Assets, liabilities and net assets/equity

1. *Deposits and investments*

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

3. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), if any, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of 3 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

LEE TOWNSHIP, MICHIGAN

Notes To Financial Statements

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
Land improvements	20
Vehicles	3-20
Equipment	3-20

4. *Compensated absences*

The Township's employees are all part-time and are not entitled to any paid vacation or sick leave. Therefore, compensated absences are not accrued in the accompanying financial statements.

5. *Long-term obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities.

6. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted for all governmental fund types each fiscal year on a basis consistent with generally accepted accounting principles. The government's final budget must be prepared and adopted prior to April 1st of each year.

LEE TOWNSHIP, MICHIGAN

Notes To Financial Statements

Reported budgeted amounts are as originally adopted or as amended by the Township Board. The legal level of budgetary control is the activity level.

The government does not utilize encumbrance accounting.

B. Excess of expenditures over appropriations

P. A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual for the General fund.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash as shown on the Statement of Net Assets to deposits as classified for note disclosure purposes is as follows:

Statement of Net Assets:

Cash and cash equivalents	\$ 161,996
Investments	100,428

Statement of Fiduciary Net Assets:

Cash and cash equivalents	<u>1,206</u>
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\$ 263,630

Classification of Deposit and Investments:

Bank deposits (checking accounts, savings accounts and certificates of deposit)	\$ 163,354
Investments	<u>100,276</u>

\$ 263,630

Deposits and investments

The Township chooses to disclose its deposits and investments by specifically identifying each. As of year end, the Township had the following deposits and investments.

LEE TOWNSHIP, MICHIGAN

Notes To Financial Statements

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Checking/savings accounts	n/a	\$ 43,354	n/a
Certificates of deposit	less than 1 year	45,000	n/a
Certificates of deposit	1-5 years	75,000	n/a
Baird Money Market Fund	n/a	65,403	n/a
Taxable Bonds	less than 1 year	671	S&P - AAA
Taxable Bonds	1-5 years	3,304	S&P - AAA
Unit Investment Trusts	n/a	<u>30,898</u>	n/a
		<u>\$ 263,630</u>	

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Township's investment policy does not have specific limits in excess of state law on investment credit risk. Investments which had credit risk ratings at year end are noted above.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year end, \$147,014 of the Township's bank balance of \$247,014 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Township does not have a policy for investment custodial credit risk. The investments listed above are not subject to custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Township's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

LEE TOWNSHIP, MICHIGAN

Notes To Financial Statements

B. Capital assets

Capital assets activity for the year ended March 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not being depreciated - land	<u>\$ 20,564</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,564</u>
Capital assets being depreciated				
Building and improvements	295,427	-	-	295,427
Furniture and equipment	<u>31,559</u>	<u>7,462</u>	<u>4,800</u>	<u>34,221</u>
Total capital assets being depreciated	<u>326,986</u>	<u>7,462</u>	<u>4,800</u>	<u>329,648</u>
Less accumulated depreciation for:				
Building and improvements	1,027	7,481	-	8,508
Furniture and equipment	<u>31,553</u>	<u>3,399</u>	<u>960</u>	<u>33,992</u>
Total accumulated depreciation	<u>32,580</u>	<u>10,880</u>	<u>960</u>	<u>42,500</u>
Total capital assets being depreciated, net	<u>294,406</u>	<u>(3,418)</u>	<u>3,840</u>	<u>287,148</u>
Governmental activities capital assets, net	<u>\$ 314,970</u>	<u>\$ (3,418)</u>	<u>\$ 3,840</u>	<u>\$ 307,712</u>

Depreciation expense of \$10,880 was charged to the function "general government".

LEE TOWNSHIP, MICHIGAN

Notes To Financial Statements

C. Interfund receivables, payables and transfers

The Township had no interfund balances as of March 31, 2007.

The composition of interfund transfers for the year ended is as follows:

	<u>Transfers In</u>
<u>Transfers Out</u>	<u>Debt Service Fund</u>
General Fund	\$ 40,000
Non-Major Fund	90
Total	<u>\$ 40,090</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended March 31, 2007, the Township transferred funds from the general fund and capital projects fund to the debt service fund to provide additional resources for the debt service payments.

D. Long-term debt

Loan Agreement. The government used a loan agreement to provide funds in the amount of \$300,000 for the construction of a new township hall. This loan agreement is expected to be repaid from the general fund. Repayment is due in four annual installments of \$4,785 (including interest), with a final balloon payment of \$246,238 in the sixth year.

The changes in general long-term debt are as follows:

Balance, beginning of year	\$ 287,992
Payments	<u>26,461</u>
Balance, end of year	<u>\$ 261,531</u>
Due within one year	<u>\$ 4,865</u>

LEE TOWNSHIP, MICHIGAN

Notes To Financial Statements

The annual principal and interest requirements to retire this debt as of March 31, 2007 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 4,865	\$ 14,275	\$ 19,140
2009	5,067	14,073	19,140
2010	5,361	13,779	19,140
2011	246,238	7,791	254,029
	<u>\$ 261,531</u>	<u>\$ 49,918</u>	<u>\$ 311,449</u>

IV. OTHER INFORMATION

A. Property taxes

Real and personal property taxes are recorded as revenue in the year for which they are levied, provided they are collectible during that year or within 60 days following that year's end. Property tax revenues shown in the General Fund reflect the 2006 Township levy of .9295 mills on the taxable valuation of property located in the Township as of the preceding December 31. Taxable values are established annually by the County and are equalized by the State at an estimated 50% of current market value or \$32,553,700. The 2006 levy became a lien on properties on December 1, 2006, and was substantially collected in early 2007. Taxes became delinquent on March 1, 2007.

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



September 25, 2007

To the Board of Trustees
Township of Lee

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Lee Township* for the year ended March 31, 2007, and have issued our report thereon dated September 25, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated April 30, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of *Lee Township*. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by *Lee Township* are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by *Lee Township* during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on *Lee Township's* financial reporting process (that is, cause future financial statements to be materially misstated). There were audit adjustments that, in our judgment, indicate matters that could have a significant effect on the *Lee Township's* financial reporting process. These include the entries that were made in order for the debt service and capital projects activity to be recorded properly by the Township.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Entity’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as *Lee Township’s* auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the audit committee, the governing body, and management of *Lee Township* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

Township of Lee

Comments and Recommendations

For the Year Ended March 31, 2007

During our audit we became aware of certain issues regarding internal control, operating efficiency and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not effect our report dated September 25, 2007 on the financial statements of the Township of Lee.

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Township's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the Township lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Township's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Township's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

Internal Controls - Financial Reporting

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting September 25, 2007 (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

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